COSTING – OUTSIDE THE CARETAKER PERIOD

<table>
<tr><th>Name of proposal to be costed:</th><th>Removing unfair tax breaks (no Capital Gains Tax (CGT) discount)</th></tr>
<tr><td>Summary of proposal:</td><td>The proposal includes a number of components:
A. Progressive superannuation taxation to replace the 15 per cent flat tax rate on pre-tax superannuation contributions from 1 July 2016 as follows:
<table><tr><th>Income</th><th>Superannuation contributions tax rate</th></tr><tr><td>Below $18,200</td><td>0 per cent</td></tr><tr><td>$18,201 - 37,000</td><td>4 per cent</td></tr><tr><td>$37,001 - 100,000</td><td>15 per cent</td></tr><tr><td>$100,001 - 150,000</td><td>22 per cent</td></tr><tr><td>$150,001 onwards</td><td>30 per cent</td></tr></table>B. The removal of negative gearing for assets purchased from 14 December 2015.
C. The abolition of the following fossil fuel subsidies from 1 January 2016:
- fuel tax credits (FTCs) for all industries except agriculture
- accelerated asset depreciation for aircraft, the oil and gas industry and vehicles (except those used for agricultural purposes)
- the immediate deduction for exploration and prospecting expenses for the mining industry
- the Global Carbon Capture and Storage Institute
- the Carbon Capture and Storage Flagships program
- the National Low Emissions Coal Initiative.
D. The removal of the capital gains tax (CGT) discount for all capital gains realised on or after 14 December 2015. Individuals would instead be able to index their cost base by the consumer price index (CPI) so that tax is only applied to real capital gains.</td></tr>
<tr><td>Person/party requesting costing:</td><td>Senator Richard Di Natale, Australian Greens</td></tr>
<tr><td>Date costing request received:</td><td>8 December 2015</td></tr>
<tr><td>Date costing completed:</td><td>11 December 2015</td></tr>
</table>

Did the applicant request the costing be confidential?	Yes
Date of public release of policy (if applicable):	14 December 2015
Expiry date for the costing:	Release of the next economic and fiscal update

Costing overview

This proposal would be expected to increase the underlying cash balance by around $37.1 billion and the fiscal balance by around $37.6 billion over the 2015-16 Budget forward estimates period.

Over this period, on an underlying cash balance basis, this impact reflects an increase in receipts of around $17.8 billion, a decrease in payments of around $19.5 billion and an increase in departmental expenses of $112 million. On a fiscal balance basis, this impact reflects an increase in revenue of around $17.4 billion, a decrease in expenses of around $20.3 billion and an increase in departmental expenses of $112 million.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2015-16	2016-17	2017-18	2018-19	Total
Underlying cash balance ($m)	2,108	9,872	11,829	13,329	37,138
Fiscal balance ($m)	2,758	9,722	11,829	13,329	37,638

(a) A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

This proposal would have an ongoing impact beyond the forward estimates period. For most of the components of the package, the financial impact in 2018-19 is reflective of the mature impact. The exception to this is the amendment to the remove negative gearing for newly purchased assets where grandfathering arrangements for assets purchased prior to 14 December 2015 delay the maturity of the costing until there is no remaining stock of assets purchased prior to this date.

Further detail of each component of this proposal is provided in Attachments A to D, including detailed financial implications, reliability ratings, key assumptions, methodologies and data sources specific to each component of the costing. A breakdown of the components of the aggregate costing, including the interactions between them, is provided at Tables 2 and 3 below.

Interactions

There are likely to be interactions between the removal of negative gearing for new purchases, the change in the tax treatment of capital gains and the changes in superannuation taxation. As such that the total impact of the proposal differs from the sum of the financial implications of each of the components in isolation.

- The abolition of negative gearing and the change in the CGT discount are, on average, expected to result in higher taxable incomes for individuals. This results in higher average tax rates being applied to superannuation contributions.

- Taxpayers are expected to utilise the tax-preferred savings vehicles available to them. For instance, for the progressive superannuation policy in isolation, some taxpayers would be expected to contribute less to their superannuation funds and instead place additional savings into assets that could utilise negative gearing tax arrangements or the CGT discount.
  - The combined costing includes an allowance for individuals no longer being able to redirect superannuation contributions into negatively geared assets. In the absence of this channel, money directed away from superannuation is expected to result in a greater increase in taxable incomes than were negative gearing available.
- In total these interactions are expected to increase revenue by approximately a further $550 million over the 2015-16 Budget forward estimates period than the policies costed in isolation.

There are not expected to be any significant interactions between the proposal to abolish fossil fuel subsidies and the proposals for superannuation taxation, CGT and negative gearing.

General commentary

The overall costing is considered to be of **low reliability**. While the estimates are based on comprehensive unit record data where possible, they are highly sensitive to various assumptions. This response does not account for the potential broader macroeconomic implications of this proposal. While the proposal includes a number of components that could be expected to have a significant macroeconomic impact, their net impact and timing is highly uncertain.

Table 2: Disaggregated financial implications (outturn prices) underlying cash balance[a]

Impact on underlying cash balance ($m)	2015-16	2016-17	2017-18	2018-19	**Total to 2018-19**
Progressive superannuation	-30	2,980	3,080	2,880	8,910
Negative gearing	-6	296	1,499	2,599	4,388
Abolition of fossil fuel subsidies	2,150	5,950	6,050	6,600	20,750
Removal of capital gains tax discount	-6	496	1,000	1,050	2,540
Interactions	-	150	200	200	550
Total	2,108	9,872	11,829	13,329	37,138

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table 3: Disaggregated financial implications (outturn prices) fiscal balance[(a)]

Impact on fiscal balance ($m)	2015-16	2016-17	2017-18	2018-19	**Total to 2018-19**
Progressive superannuation	-30	2,980	3,030	2,780	8,760
Negative gearing	-6	296	1,499	2,599	4,388
Abolition of fossil fuel subsidies	2,800	5,800	6,100	6,700	21,400
Removal of capital gains tax discount	-6	496	1,000	1,050	2,540
Interactions	-	150	200	200	550
Total	2,758	9,722	11,829	13,329	37,638

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

ATTACHMENT A: COSTING – OUTSIDE THE CARETAKER PERIOD

Name of proposal to be costed:	Progressive superannuation taxation
Summary of proposal:	The proposal would replace the 15 per cent flat tax rate on pre-tax superannuation contributions with a progressive marginal tax rate as follows: <table><tr><td>Income</td><td>Superannuation contributions tax rate</td></tr><tr><td>Below $18,200</td><td>0 per cent</td></tr><tr><td>$18,201 - 37,000</td><td>4 per cent</td></tr><tr><td>$37,001 - 100,000</td><td>15 per cent</td></tr><tr><td>$100,001 - 150,000</td><td>22 per cent</td></tr><tr><td>$150,001 onwards</td><td>30 per cent</td></tr></table>These income thresholds would be indexed annually in line with growth in average weekly ordinary time earnings. The income to determine contributions tax would be the sum of taxable income and concessional superannuation contributions. In 2016-17, the tax rate for those with incomes in excess of $180,000 would increase by a further 2 percentage points (in line with the Temporary Budget Repair Levy) to 32 per cent. In addition: • the Division 293 tax on contributions for very high income earners would be abolished • for those receiving a transition to retirement income stream, only net contributions to superannuation would be subject to the concessional tax rates - contributions up to the level of any tax free withdrawals from superannuation would be taxed at personal income tax marginal rates • the changes would not apply to members of unfunded defined benefits funds. The taxation treatment of all other existing aspects of the superannuation system would remain unchanged. This proposal would commence from 1 July 2016. The request also sought cameo analysis on the difference in taxation and lifetime incomes as a result of the proposal.

Costing overview

This proposal would be expected to increase the underlying cash balance by around $8.91 billion and increase the fiscal balance by around $8.76 billion over the 2015-16 Budget forward estimates period (2015-16 to 2018-19).

On an underlying cash balance basis, this impact reflects an increase in departmental payments and capital of $90 million and an increase in receipts of around $9.00 billion over this period. On a fiscal balance basis, this impact reflects an increase in departmental expenses and capital of $90 million and an increase in revenue of around $8.85 billion over this period.

The revenue impact of the proposal consists of increases in superannuation tax collections plus an increase in personal income tax due to both a substitution of some savings away from superannuation and the removal of the tax advantage from the simultaneous use of salary sacrifice and transition to retirement income streams. The expense impact is entirely due to an increase in departmental expenses and capital.

This proposal would have an ongoing impact beyond the forward estimates period. The proposed changes to contributions tax would, on average, lead to lower after tax contribution levels, and thus lower superannuation account balances. This would be expected to have implications for the Age Pension and the level of savings outside of superannuation over the longer term.

The changes required under this proposal would likely be complex to implement and administer, and require substantial systems changes. The Parliamentary Budget Office (PBO) estimates departmental expenses for the Australian Taxation Office (ATO) associated with this proposal would be $80 million and capital costs would be $10 million over the 2015-16 Budget forward estimates period. The proposal would also involve compliance costs for the superannuation industry, employers and software developers. These compliance costs are not taken into account in this costing.

The underlying cash balance impact of this proposal differs from the fiscal balance impact due to the abolition of the Division 293 tax on superannuation contributions for very high income earners. The fiscal balance impact of this occurs when liabilities are raised and when interest is charged in arrears. The underlying cash balance impact occurs when debts are paid.

This costing is considered to be of **low to medium reliability**. The costing is largely based on detailed administrative data. However, estimates of tax free withdrawals from superannuation have been imputed for taxpayers aged 60 and over (as this information is not generally reported to the ATO) and the overall impact of the proposal would be sensitive to the magnitude of any behavioural responses.

Table A1: Financial implications (outturn prices)[(a)]

Impact on	2015-16	2016-17	2017-18	2018-19	Total
Underlying cash balance ($m)	-30	2,980	3,080	2,880	8,910
Fiscal balance ($m)	-30	2,980	3,030	2,780	8,760

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Key assumptions

- Net superannuation contributions are assumed to be Superannuation Guarantee contributions, plus any additional non-SG employer contributions, plus salary sacrificed contributions, plus any Low Income Superannuation Contribution payment, less any withdrawals from superannuation.

  - It is assumed that voluntary contributions would cease where marginal tax rates would apply to these contributions. Net withdrawals are assumed to remain unchanged.
    - Compulsory Superannuation Guarantee contributions that are less than any withdrawals would be taxed at full personal income marginal rates.

- Income for the purposes of the progressive contributions tax would be the sum of an individual's taxable income and their concessional superannuation contributions.
  - If an individual has a taxable income below a threshold but adding concessional contributions takes them above a threshold, the higher contributions tax rate would only be applied to the contributions above the threshold. This approach is consistent with the current operation of the Division 293 tax.
  - For example:
    - An individual with a taxable income of $140,000 and concessional contributions of $20,000 (that is a total of $160,000) would pay a tax rate of 22 per cent on $10,000 of contributions and a tax rate of 30 per cent on the remaining $10,000.
    - An individual with a taxable income of $34,000 and concessional contributions of $3,400 (that is a total of $37,400) would pay a tax rate of 4 per cent on $3,000 and pay a tax rate of 15 per cent on the remaining $400.[1]

- It has been assumed that an individual with taxable income and concessional contributions between $150,000 and $300,000 will respond to the policy by reducing their voluntary concessional superannuation contributions, as the proposal makes superannuation less concessional for these people.
  - While concessional superannuation would still provide a tax concession for these individuals, this must be balanced against the fact that money contributed to superannuation is not readily accessible.
  - The reduction in concessional superannuation contributions is assumed to result in increased taxable incomes. However, taxable incomes will not increase by the full amount of the reduction in concessional contributions due to the ability for some taxpayers to utilise other tax concessions.
  - Those with income above $300,000 currently face an effective tax rate of 30 per cent on their contributions, and thus are not expected to change their behaviour.

- It is assumed that superannuation funds would continue to pay regular contributions tax instalments, at a rate based on expected annual income. Reconciliation would be required following tax assessment to ensure the correct amount of tax has been paid.
  - For the purposes of this costing, it has been assumed that, on average, the quarterly instalments will collect the correct amount of tax. That is, the reconciliation will have zero revenue impact.

- The proposal would not have a significant impact on Age Pension payments in the time period examined.

[1] This would result in a progressive contributions tax liability of $180. In addition, this individual would also receive $500 in Low Income Superannuation Contribution (LISC) in relation to their concessional contribution in 2016-17. The LISC ceases in 2017-18.

Methodology

A de-identified 16 per cent sample of personal income and superannuation tax returns from the 2012-13 tax year has been used to estimate the budget impact of the contributions tax and personal income tax components of this costing. Outcomes are estimated for each individual in the data under both current and proposed policy.

For those aged 60 and above, information on tax free withdrawals from superannuation are not included in tax return data. However, this information is included on tax returns for self-managed superannuation funds (SMSFs). For taxpayers who are members of SMSFs, this information has been matched back to tax return data. For taxpayers who are not members of SMSFs, the PBO has imputed tax free withdrawals. The matched and imputed withdrawals are compared with the contributions reported in tax return data to determine the level of net contributions and any behavioural response to the proposal.

The modelling takes account of the timing of tax collections.

Revenue estimates have been rounded to the nearest $50 million and expense estimates have been rounded to the nearest $10 million.

Data sources

- De-identified personal income and superannuation tax returns from the 2012-13 tax year.

ATTACHMENT B: COSTING – OUTSIDE THE CARETAKER PERIOD

Name of proposal to be costed:	**Removal of negative gearing**
Summary of proposal:	The proposal would remove negative gearing for individuals, funds, trusts, partnerships and companies. Within year losses could not be carried forward to offset future rental gains, and could not be used to offset the ultimate capital gain when the asset is sold. The proposal would commence on 14 December 2015, with assets purchased prior to this date being grandfathered.

Costing overview

The proposal would be expected to increase both the underlying cash and fiscal balances by around $4.4 billion over the 2015-16 Budget forward estimates period. This predominantly reflects an increase in revenue, but also includes an increase in departmental expenses of $12 million over this period.

Table B1: Financial implications (outturn prices)(a)(b)

Impact on	2015-16	2016-17	2017-18	2018-19	Total
Underlying cash balance ($m)	-6	296	1,499	2,599	4,388
Fiscal balance ($m)	-6	296	1,499	2,599	4,388

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms. A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

(b) The negative impact in 2015-16 reflects an increase in departmental expenses. The revenue impacts in 2015-16 are small due to the grandfathering arrangements and the timing of tax collections. They have been rounded to zero.

The impact over the forward estimates period is not reflective of the longer-term impact due to the grandfathering provisions. The proposal would not fully mature[2] until there was no remaining stock of negatively geared assets purchased prior to 14 December 2015. To provide an indication of the medium-term financial implications, estimates of the revenue and expense impact for each of these proposals over the period to 2025-26 are provided at table B2 at the end of this attachment.

There would be around $12 million in departmental expenses associated with the implementation and administration over the 2015-16 Budget forward estimates period. This funding would provide the Australian Taxation Office (ATO) with additional resourcing.

This costing is considered to be of **low reliability** due to uncertainty surrounding behavioural responses and broader economic impacts. Any broader economic impacts arising from these proposals have not been included in this costing. In addition, the reliability of the costing decreases the further into the future the estimates are projected.

[2] Mature for the purposes of these costings is the point at which the costings are no longer affected by transitional influences.

Key assumptions

- The proposal would be announced on 14 December 2015 and that enabling legislation can be implemented before 30 June 2016.
- The proposal may have broader macroeconomic implications, including changes to asset prices, rents, interest rates and housing supply. The budget impacts of these broader macroeconomic implications have not been estimated.
- The impact on payments to families and income support recipients due to changes in the incomes of such recipients with capital income or undertaking negative gearing is not expected to be significant.
- An assumption has been made on the proportion of negative gearing arrangements from assets purchased after 14 December 2015 in each year based on an examination of:
  - ATO rental income schedules
  - unit record data from the Australia Bureau of Statistics (ABS) Survey of Income and Housing
  - data relating to holding times of residential property in the United States (US) from the US Census Bureau and US Department of Housing and Urban Development's 2007 American Housing Survey
  - data on holding times of Australian equities from the 2012 Australian Share Ownership Study.
- There are a number of other potential behavioural responses associated with changes to negative gearing, including increased use of alternate concessionally taxed activities. A behavioural response to account for these potential responses has been incorporated into this costing.

Methodology

- The costing was based on a 16 per cent sample of de-identified personal income tax and superannuation returns for the 2012-13 financial year, as well as tax schedules for partnerships, trusts and superannuation funds (including self-managed superannuation funds).
- The data was used to estimate the amount by which negative gearing decreased taxable income for individuals and funds, including through distributions from partnerships and trusts.
- This base level of taxable income was then adjusted to account for the behavioural responses identified above.
- Based on the changes in taxable income, the PBO estimated the increase in tax payable for individuals and funds from the proposed changes to the negative gearing rules.
- The costing accounts for the timing of tax collections from individuals and superannuation funds.
- Departmental expenses were estimated based on amounts allocated to the ATO for measures with similar administrative complexity.
- Estimates of revenue have been rounded to the nearest $100 million and departmental expense estimates to the nearest $1 million.

Data sources

- 2012-13 personal income tax and superannuation return data.
- 2011-12 Capital Gains Tax Schedule data.
- ABS, 5609.0 – Housing Finance, Australia.
- ABS, Survey of Income and Housing 2009-10 and 2011-12, confidentialised unit record files.
- ATO, Taxation Statistics – 2012-13.
- Australian Securities Exchange, Australian Share Ownership Study, 2012.
- 2012–13 de-identified ATO partnership, trust, fund and self-managed superannuation fund unit record files.
- How Long Buyers Remain in their Homes, Paul Emrath, (US) National Association of Home Builders, 2009.
- Information from ATO rental income schedules (1999-2000 to 2010-11).
- National Housing Supply Council: State of Supply Report 2011.

Table B2: Remove negative gearing with grandfathering of assets purchased prior to 14 December 2015

Impact on ($m):	2015-16	2016-17	2017-18	2018-19	**Total to 2018-19**	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Revenue / receipts	-	300	1,500	2,600	**4,400**	3,600	4,600	5,600	6,500	7,400	8,400	9,400	**49,900**
Departmental expenses (ATO)	6	4	1	1	**12**	1	1	1	1	1	1	1	**19**
Underlying cash / fiscal balance[(a)]	-6	296	1,499	2,599	**4,388**	3,599	4,599	5,599	6,499	7,399	8,399	9,399	**49,881**

.. Not zero, but rounded to zero.

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments in cash terms. The underlying cash and fiscal balance impacts are calculated as revenue minus departmental expenses.

ATTACHMENT C: COSTING – OUTSIDE THE CARETAKER PERIOD

Name of proposal:	**Removal of fossil fuel subsidies**
Summary of proposal:	The proposal would abolish: • fuel tax credits (FTCs) for all industries except agriculture • accelerated asset depreciation for aircraft, the oil and gas industry and vehicles (except those used for agricultural purposes) • the immediate deduction for exploration and prospecting expenses for the mining industry • the Global Carbon Capture and Storage Institute • the Carbon Capture and Storage Flagships program • the National Low Emissions Coal Initiative. The proposal would have effect from 1 January 2016.

Costing overview

This proposal would increase the underlying cash balance by $20.8 billion and increase the fiscal balance by $21.4 billion over the 2015-16 Budget forward estimates period. This impact reflects:

- an increase in revenue from abolishing accelerated depreciation and exploration tax concessions for all industries except for the agriculture industry
- a reduction in expenditure from abolishing FTCs and an associated offsetting decrease in company tax arising from increased fuel costs.

Table C1: Financial implications (outturn prices)[(a)]

Impact on	2015-16	2016-17	2017-18	2018-19	Total
Underlying cash balance ($m)	2,150	5,950	6,050	6,600	20,750
Fiscal balance ($m)	2,800	5,800	6,100	6,700	21,400

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in expenditure in cash terms.

Removing the Global Carbon Capture and Storage Institute, Carbon Capture and Storage Flagships program, and the National Low Emissions Coal Initiative would not have a financial impact as these programs have either been terminated or have no outstanding uncommitted funding.

As this costing includes a number of components, detailed breakdowns on both underlying cash and fiscal balance bases are included in tables C2 and C3 respectively at the end of this attachment.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because of the difference between the timing of accrual and cash expenses related to the FTC component of the costing.

This proposal would have an ongoing impact that extends beyond the forward estimates period. The impacts of the accelerated depreciation and exploration and prospecting components will decline over time as the timing effect unwinds.

The PBO does not expect that departmental expenses would be significant and these have not been included in this costing.

This costing is considered to be of low reliability as it is based on a number of assumptions and projected aggregate data.

Key assumptions

Assumptions relating to the abolition of fuel tax credits

- Currently businesses are able to claim FTCs for fuel they use, as follows:
  - an FTC equal to the full excise paid on eligible fuel is available for fuel used in off road applications
  - a part FTC, equal to the excise paid less a road user charge (RUC) is payable in respect of fuel used on road in transport vehicles with greater than 4.5 tonnes gross vehicle mass (GVM).
- Assumptions regarding the proportion of FTCs claimed for on and off-road use are based on historical splits from the Energy Grants Credits Scheme.
- The costing assumes that business fuel use does not change as a result of the proposal.
- The effective increase in business fuel costs from the abolition of the FTC is assumed not to be passed on to consumers.
- The company tax rate is 30 per cent.

Assumptions relating to the abolition of accelerated asset depreciation

The PBO has made the following assumptions in calculating the estimated impact of removing the accelerated depreciation tax concessions:

- The costing assumes that there is no change to the overall level or timing of investment as a result of this proposal.
- Where there are varying safe harbour effective lives for the same category of asset, an average was taken to arrive at the safe harbour asset life.
- Assets are assumed to be purchased throughout the year.
- Taxpayers are assumed to utilise deductions according to the following profile:
  - 75 per cent are taxable in the year they purchase the depreciable assets
  - 15 per cent become taxable in the year after they purchased the asset
  - 5 per cent become taxable two years after they purchased the asset.
- Some of the increase in tax from companies arising from the proposal is clawed back through increased imputation credits being available in relation to dividends paid to shareholders.

- The average marginal tax rate for individual taxpayers is 33 per cent.
- 10 per cent of vehicles were considered to be used for agricultural purposes and were not included in the costing.

Assumptions relating to the abolition of immediate deductions for exploration and prospecting

The PBO has made the following assumptions in calculating the estimated impact of removing the immediate deductions associated with exploration and prospecting:

- Taxpayers are assumed to utilise deductions associated with exploration and prospecting according to their taxable/non-taxable status. In aggregate, 50 per cent of affected taxpayers are taxable each year.
- Exploration and prospecting assets are assumed to have a 15 year effective life under the proposal.

Methodology

Methodology for costing the abolition of fuel tax credits

The costing was calculated using an aggregate analysis, based on total FTCs paid to all industries except agriculture. This is a "top down" approach, using actual payment data and includes the effect of factors such as the take up rates for FTCs that were applicable in the period from which the data are drawn. The impact of the proposal was calculated as follows:

- Total FTCs payable in 2012-13 were obtained from the Australian Taxation Office (ATO) taxation statistics and projected out over the forward estimates using the derived growth rate in diesel fuel quantities, which represent a proxy for off road use of fuel and FTC quantities.
- The FTC data was decomposed into 'on road' and 'off road' components using historical data from the Energy Grants Credit Scheme.
  - The road user charge (RUC), which is used to calculate 'on road' FTCs, was grown in the projection period at the average of annual growth rates for the period 2008-09 to 2013-14.
- The financial impact on an underlying cash balance basis was calculated based on the frequency of FTC payments made through the Business Activity Statement system.

Methodology for modelling the abolition of accelerated asset depreciation and the abolition of immediate deductions for exploration and prospecting

The impact of these proposals was estimated by calculating the impact of total depreciation deductions expected under the proposal over the forward estimates period less the impact of total depreciation deductions currently expected over the forward estimates period.

Company tax timing assumptions which allow for the impact of companies with substituted accounting periods were used in this costing.

Estimates have been rounded to the nearest $50 million.

Data sources

- ATO Taxation Statistics 2012-13, detailed tables from the ATO website www.ato.gov.au.
- Fuel excise data and FTC estimates from the 2015-16 Budget.
- ATO data on business depreciating asset expenditure was obtained from the Treasury.

Table C2: Financial implications – fiscal balance ($ million)[(a)]

($m)	2015-16	2016-17	2017-18	2018-19	**Total to 2018-19**
Revenue					
Remove accelerated depreciation	100	450	900	1,300	**2,750**
Remove immediate deduction for exploration and prospecting	100	650	1,000	800	**2,550**
Company tax impact from abolishing FTCs	-	-800	-1,650	-1,750	**-4,200**
Total revenue	**200**	**300**	**250**	**350**	**1,100**
Expense					
Abolish FTCs	2,600	5,500	5,850	6,350	**20,300**
Abolish the Carbon Capture and Storage Institute	-	-	-	-	**-**
Abolish the Carbon Capture and Storage Flagships program	-	-	-	-	**-**
Abolish the National Low Emissions Coal Initiative	-	-	-	-	**-**
Total expense	**2,600**	**5,500**	**5,850**	**6,350**	**20,300**
Net impact – fiscal balance	***2,800***	***5,800***	***6,100***	***6,700***	***21,400***

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue in accrual terms.

Table C3: Financial implications – underlying cash balance ($ million)[(a)]

($m)	2015-16	2016-17	2017-18	2018-19	**Total to 2018-19**
Receipts					
Remove accelerated depreciation	100	450	900	1,300	**2,750**
Remove immediate deduction for exploration and prospecting	100	650	1,000	800	**2,550**
Company tax impact from abolishing FTCs	-	-600	-1,650	-1,750	**-4,000**
Total receipts	**200**	**500**	**250**	**350**	**1,300**
Payments					
Abolish FTCs	1,950	5,450	5,800	6,250	**19,450**
Abolish the Carbon Capture and Storage Institute	-	-	-	-	**-**
Abolish the Carbon Capture and Storage Flagships program	-	-	-	-	**-**
Abolish the National Low Emissions Coal Initiative	-	-	-	-	**-**
Total payments	**1,950**	**5,450**	**5,800**	**6,250**	**19,450**
Net impact – underlying cash balance	***2,150***	***5,950***	***6,050***	***6,600***	***20,750***

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts in cash terms.

ATTACHMENT D: COSTING – OUTSIDE THE CARETAKER PERIOD

Name of proposal to be costed:	**Capital gains reforms**
Summary of proposal:	The proposal would remove the capital gains tax discount for individuals. Instead, individuals would be able to index their cost base (generally the purchase price plus expenses associated with purchase) by the consumer price index (CPI) so that tax is only applied to real capital gains. The proposal would be announced on 14 December 2015 and would apply to all capital gains realised on or after this date.

Costing overview

The proposal would be expected to increase both the underlying cash and fiscal balances by around $2.5 billion over the 2015-16 Budget forward estimates period. This impact primarily reflects an increase in revenue, but also includes an increase in departmental expenses of $10 million over this period.

Table D1: Financial implications (outturn prices)[(a)]

Impact on	2015-16	2016-17	2017-18	2018-19	Total
Underlying cash balance ($m)	-6	496	1,000	1,050	2,540
Fiscal balance ($m)	-6	496	1,000	1,050	2,540

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts in cash terms. A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in payments in cash terms.

The proposal would have an ongoing impact that extends beyond the forward estimates period. The estimate for the 2018-19 financial year is indicative of the ongoing financial implication of the proposal.

It is estimated that there would be $10 million in departmental expenses associated with the implementation and administration of this proposal over the 2015-16 and 2016-17 Budget years ($6 million and $4 million respectively). This would allow the Australian Taxation Office (ATO) to undertake an information campaign around the change to the treatment of capital gains from 2015-16. This estimate is based on an analysis of previous policies with similar administrative complexity.

These costings are considered to be of **low reliability**, and are sensitive to volatility in real capital gains, the ongoing level of CPI inflation, variation in when capital gains are realised, the extent of behavioural responses to the policy change, and broader macroeconomic impacts of this proposal.

Key assumptions

- The enabling legislation is assumed to be implemented before 1 July 2016 (the date from which tax returns for the 2015-16 financial year begin to be submitted to the ATO).

- For the purposes of calculating taxable returns under the proposed indexation method, CGT assets are assumed to earn a rate of return in line with growth in nominal gross domestic product, and CPI is assumed to grow at 2.5 per cent per annum.
  - The costing is sensitive to these assumptions.
  - When real rates of return on CGT assets are low (or negative), the <u>indexation</u> method is more generous. When real rates of return are high or assets are held for an extended period of time, the <u>discount</u> method is more generous.
  - Under the assumptions used in this costing, the indexation method is less concessional than the 50 per cent discount for individuals and trusts.
  - However, given the volatility in capital gains, the results presented in the costing should only be considered indicative of the average financial implications of the proposal. The magnitude of the financial implications is likely to vary across years.

- Given the uncertainty around how the changes to the tax treatment of capital gains will affect tax liabilities, a behavioural response to the policy change has not been included in this costing.

- To account for the mid-year implementation date, it was assumed that capital gains will be realised evenly across the 2015-16 financial year.

- Assumptions have been made on asset holding times and the realisation of capital gains in each year based on an examination of:
  - ATO rental income schedules
  - unit record data from the Australia Bureau of Statistics (ABS) Survey of Income and Housing
  - data relating to holding times of residential property in the United States (US) from the US Census Bureau and US Department of Housing and Urban Development's 2007 American Housing Survey
  - data on holding times of Australian equities from the 2012 Australian Share Ownership Study.

- The impact on payments to families and income support recipients due to changes in the incomes of such recipients is assumed to be negligible.

- These proposals may have broader macroeconomic implications, including changes to asset prices, interest rates and housing supply. The budget impacts of these macroeconomic implications have not been estimated.

Methodology

- The amount of assessable income from capital gains was estimated for each year based on current revenue estimates and projections of CGT.

- The assumptions on holding times and rates of return were used to construct a CGT cost base for each Budget year.

- The taxable capital gains in each year were constructed by the difference between the assumed (nominal) rate of return on CGT assets and inflation as measured by CPI.
- An estimated average marginal tax rate was applied to all of the revised net capital gains income to give the estimated revenue under the proposal.
- The effect on revenue was estimated by taking the difference between this estimate and current CGT revenue forecasts and projections.
- The financial estimates for the first financial year were scaled to reflect the part-year implementation date.
- The modelling takes account of the timing of tax collections.
- Departmental expenses have been estimated based on amounts allocated to the ATO for recent measures with similar administrative complexity.
- Estimates of revenue have been rounded to the nearest $50 million and departmental expense estimates to the nearest $1 million.

Data sources

- 16 per cent samples of de-identified personal income tax and superannuation records from 2012-13.
- The Treasury has provided versions of the 2014 Tax Expenditure Statement models for the 50 per cent CGT discount for individuals.
- Information from ATO rental income schedules (from the 1999-2000 to 2010-11 tax years).
- ABS, Survey of Income and Housing 2009-10, confidentialised unit record files.
- American Housing Survey data has been taken from, How Long Buyers Remain in their Homes, Paul Emrath, (US) National Association of Home Builders, 2009.
- US Census Bureau and US Department of Housing and Urban Development's 2007 American Housing Survey.
- Australian Share Ownership Study, Australian Securities Exchange, 2012.